

ARIZONA
MONTHLY FISCAL HIGHLIGHTS
December 2004

General Fund revenue collections were \$746.8 million in December. This amount is \$77.9 million over the forecast for the month and 22.0% greater than December of last year.

Collections for the first 6 months of the fiscal year total \$267.5 million over the budgeted forecast. The General Appropriation Act included a provision that any revenue exceeding the budgeted forecast for the first six months of FY 2005 will be dedicated for specific purposes. This "excess" FY 2005 revenue will be divided evenly between the General Fund and the Budget Stabilization Fund (BSF). The actual transfer to the BSF will be jointly determined by the JLBC Staff and the Office of Strategic Planning and Budgeting by February 10.

The existence of surplus FY 2005 revenues does not mean that there will be surplus monies in the next fiscal year. For example, surplus FY 2005 revenues may be used in the FY 2006 budget to offset the loss of one-time FY 2005 financing.

December collections for the Big 3 revenue categories were a total of \$114.5 million over the same month last year. Sales tax collections once again were strong, with an increase of \$25.9 million, or 9.9%. Individual income tax collections were \$36.6 million, or 14.1% over last year. However the largest increase was in corporate income tax collections, which were \$52.0 million, or 61.1% over last December 2003.

General Fund Revenues
Compared to Adopted Forecast and FY 2004 Collections
(\$ in Millions)

	FY 2005 Collections	Difference From Forecast ^{1/}	Difference From FY 2004
December	\$ 746.8	\$ 77.9	\$ 134.6
Year-to Date	\$ 3,595.7	\$ 267.5	\$ 393.8 ^{2/}

1/ Enacted FY 2005 budget (May)

2/ Including the receipt of \$87.2 million federal cash assistance grant in October, 2003.

Sales Tax revenue increased by 9.9% on a year-over-year basis in December and was \$12.3 million above the forecast for the month. Year-to-date, collections are 9.6% over the first 6 months of last fiscal year and \$56.4 million over forecast for the period. The following is based on collections through December:

- Retail sales tax receipts have increased by 8.1%.
- Contracting continues to exhibit the large increases begun last year, with a year-to-date increase of 17.9%.
- Restaurants and bars collections are up 8.4%.
- Use tax receipts (all of which is retained by the state) are up 12.0%.

Individual Income Tax collections for December were 14.1% above last year. Withholding tax collections increased by 9.2% compared to last year. Estimated/final payments were up almost 43% over last year, and refunds were up almost 70%. Year-to-date total individual income tax collections are 13.1%

above last year, and \$91.5 million above the forecast for through December.

Corporate Income Tax revenue of \$137.2 million was \$52.0 million over December collections last year. This amount represents the highest single net collection month since September 2000. Year-to-date corporate collections are \$105.5 million or 44.5% over forecast.

Recent Economic Indicators: The **U.S. Consumer Confidence Index**, which was declining since August, rebounded sharply in December. Consumers' assessment of current conditions, the job market, and the near-term outlook all showed improvement. The **U.S. Index of Leading Economic Indicators** continued to advance in December following an extended period of decline.

U.S. semiconductor billings (three-month moving average) dipped a bit in November but remained well above the previous year's results. The Semiconductor Industry

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Association reported that the wireless handset market has been stronger than recent forecasts had suggested.

Arizona's job market closed the year on a strong note. The **unemployment rate** dropped to 4.2% in December, well below the 5.4% U.S. average. The manufacturing sector added 300 positions in December, while health care, financial services and tourism-related businesses accounted for much of the remaining job gains. Total **non-farm employment** increased by 2.8% on a year-over-year basis for the month of December.

The **Arizona Business Conditions Index** posted a solid 5.1% increase in December, with production and employment among the strongest influences. The Behavior Research Center's **Arizona Consumer Confidence Index** rose to 104.3 in January 2005, a 20-point improvement from two years ago. The most recent survey reported that improved business conditions and the employment outlook have bolstered confidence in the last three months. Meanwhile, the University of Arizona's **Business Leaders Confidence Index** for 2005's first quarter slipped (4.9)% from the previous survey. The outlook for sales, profits and hiring all declined from three months ago.

Arizona personal income totaled \$161.7 billion (annualized) in 2004's third quarter, according to preliminary estimates. The state's 1.1% increase from the prior quarter ranked 8th among the states and pushed Arizona's personal income growth to 7.0% on a year-over-year-basis.

Among state programs, the **AHCCCS caseload** continued to increase in December. Average enrollment for the most recent three months was 6.2% higher than the previous three-month period and 7.6% above the level from one year ago. The **number of TANF recipients** (three-month average) declined to 110,769 in November, a (3.7)% drop from the previous three-month period.

The **Department of Corrections' inmate population** increased by an average of 100 inmates per month from October through December. Although the increase was less than the budgeted rate of 115 net new inmates per month, the average head count was 1,180 higher than the level from a year ago.

RECENT ECONOMIC INDICATORS

<u>Indicator</u>	<u>Time Period</u>	<u>Current Value</u>	<u>Change From Prior Period</u>	<u>Change From Prior Year</u>
Arizona				
- Unemployment Rate	December	4.2%	(0.3)%	(0.8)%
- Jobs	December	2.41 million	0.2%	2.8%
- Contracting Tax Receipts (3-month average)	Sep-Nov	\$54.7 million	5.3%	16.2%
- Retail Sales Tax Receipts (3-month average)	Sep-Nov	\$131.6 million	(1.4)%	8.1%
- Residential Building Permits - (3-month moving average)				
Single-unit	November	5,997	(8.3)%	17.0%
Multi-unit	November	614	(7.2)%	(41.6)%
- Arizona Tourism Barometer	October	96.7	0.8%	5.7%
- Phoenix Sky Harbor Air Passengers	December	3.24 million	(4.5)%	8.7%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	October	\$5.49	4.8%	15.8%
- Leading Indicators Index	October	124.5	(0.7)%	1.1%
- Business Conditions Index (>50 signifies expansion)	December	64.6	5.1%	(2.0)%
- Consumer Confidence Index	1 st Quarter 2005	104.3	3.2%	13.1%
- Business Leaders Confidence Index	1 st Quarter 2005	65.5	(4.9)%	(10.9)%
- Arizona Personal Income	3 rd Quarter 2004	\$161.7 billion	1.1%	7.0%
- Arizona Population	July 1, 2004	5.74 million	3.0%	3.0%
- AHCCCS Recipients (3-month average)	Oct-Dec	806,347	6.2%	7.6%
- TANF Recipients (3-month average)	Sep-Nov	110,769	(3.7)%	(13.5)%
- DOC Inmate Growth (3-month average)	Oct-Dec	32,470	100 inmates	1,220 inmates
United States				
Gross Domestic Product	3 rd Quarter 2004	\$10.9 trillion	4.0%	4.0%
- (seasonally adjusted annual growth rate)				
- Consumer Confidence Index	December	102.3	10.5%	11.6%
- Leading Indicators Index	December	115.4	0.2%	0.8%
- U.S. Semiconductor Billings -(3-month moving average)	Sep-Nov	\$3.4 billion	(1.6)%	13.1%
- Consumer Price Index - (3-month moving average)	Oct-Dec	190.7	0.1%	3.3%

State of Arizona

General Fund Revenue: Change from Previous Year and Original Budget Forecast

December 2004

	Current Month					FY 2005 YTD (Six Months)				
		Change From					Change from			
	Actual	December 2003		Budgeted Forecast		Actual	December 2003		Budgeted Forecast	
	December 2004	Amount	Percent	Amount	Percent	December 2004	Amount	Percent	Amount	Percent
<u>Taxes</u>										
Sales and Use	\$287,618,721	\$25,884,152	9.9 %	\$12,326,187	4.5 %	\$1,747,580,798	\$153,141,063	9.6 %	\$56,398,365	3.3 %
Income - Individual	296,768,719	36,621,810	14.1	24,616,029	9.0	1,365,507,669	158,482,886	13.1	91,511,120	7.2
- Corporate	137,232,790	52,031,769	61.1	46,709,348	51.6	342,740,713	117,526,144	52.2	105,548,060	44.5
Property	2,404,322	(4,775,222)	(66.5)	(2,187,499)	(47.6)	14,035,084	(13,064,182)	(48.2)	(1,034,768)	(6.9)
Luxury	4,891,495	(283,033)	(5.5)	(523,505)	(9.7)	30,583,074	1,003,825	3.4	93,074	0.3
Insurance Premium	22,430,177	22,393,579	--	(871,865)	(3.7)	123,361,188	52,714,173	74.6	5,805,035	4.9
Estate	2,462,239	(2,677,148)	(52.1)	787,239	47.0	20,745,602	107,535	0.5	10,695,602	106.4
Other Taxes	56,121	12,283	28.0	(813,879)	(93.5)	1,605,914	(90,132)	(5.3)	(3,614,086)	(69.2)
Sub-Total Taxes	\$753,864,584	\$129,208,190	20.7 %	\$80,042,055	11.9 %	\$3,646,160,042	\$469,821,312	14.8 %	\$265,402,402	7.9 %
<u>Other Revenue</u>										
Lottery	2,791,000	714,600	34.4	(309,000)	(10.0)	15,332,200	(2,576,400)	(14.4)	(167,800)	(1.1)
License, Fees and Permits	2,133,498	(157,248)	(6.9)	254,025	13.5	13,053,212	1,086,126	9.1	1,527,147	13.2
Interest	2,127,506	812,100	61.7	844,596	65.8	9,133,699	(8,163,637)	(47.2)	3,224,939	54.6
Sales and Services	3,537,049	(6,570)	(0.2)	(757,097)	(17.6)	17,977,859	(5,568,841)	(23.7)	(3,476,329)	(16.2)
Other Miscellaneous	1,315,875	(3,172,209)	(70.7)	(1,659,389)	(55.8)	7,844,974	(7,092,714)	(47.5)	(3,171,275)	(28.8)
Disproportionate Share	0	0	--	0	--	0	(5,625,187)	(100.0)	0	--
Transfers and Reimbursements	122,116	(3,936,885)	(97.0)	(697,664)	(85.1)	16,382,811	(82,482,526)	(83.4)	3,947,811	31.7
Sub-Total Other Revenue	12,027,044	(5,746,212)	(32.3) %	(2,324,529)	(16.2) %	79,724,755	(110,423,179)	(58.1) %	1,884,493	2.4 %
TOTAL BASE REVENUE	\$765,891,628	\$123,461,978	19.2 %	\$77,717,526	11.3 %	\$3,725,884,797	\$359,398,133	10.7 %	\$267,286,895	7.7 %
<u>One-Time Revenue</u>										
Urban Revenue Sharing	(31,089,382)	(667,285)	2.2	135	(0.0)	(186,536,289)	(4,003,707)	2.2	813	(0.0)
Budget Balancing Transfers	0	0	--	0	--	0	0	--	0	--
VLT Transfer	11,973,044	11,973,044	--	173,044	1.5	54,157,006	54,157,006	--	173,044	0.3
Tax Amnesty	0	0	--	0	--	0	(15,080,406)	(100.0)	0	--
Judicial Enhancement	50,000	(203,857)	(80.3)	50,000	--	2,196,600	(701,357)	(24.2)	50,000	2.3
Sub-Total Transfers In	(19,066,338)	11,101,902	(36.8) %	223,179	(1.2) %	(130,182,683)	34,371,536	(20.9) %	223,857	(0.2) %
TOTAL REVENUE	\$746,825,290	\$134,563,880	22.0 %	\$77,940,705	11.7 %	\$3,595,702,114	\$393,769,669	12.3 %	\$267,510,752	8.0 %

VP% = Percent change from comparable period in prior year

VF% = Variance from forecast

F% = Forecast percent change for the fiscal year.

R% = Average percent change from comparable period in prior year which must be attained over remaining months to realize the forecast for year.